

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Jack B. Johnson
County Executive



Wayne K. Curry
Former County Executive
Term ending December 2, 2002

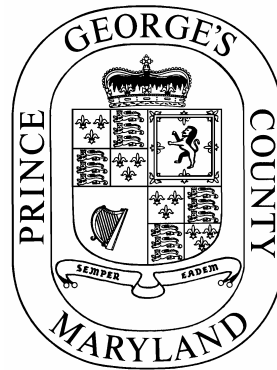
For the year ended June 30, 2002

PRINCE GEORGE'S COUNTY

MARYLAND

Wayne K. Curry

County Executive



2001 2002

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2002

Prepared by Office of Finance

Gail D. Francis

Acting Director of Finance

INTRODUCTORY SECTION

This section contains the listing of County officials, the Letter of Transmittal and the Certificate of Achievement for Excellence in Financial Reporting.

**Prince George's County, Maryland Comprehensive Annual Financial Report
Year Ended June 30, 2002**



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Prince George's County Elected Officials *County Council*

Council Chair



Marilynn M. Bland
District 9



Douglas J.J. Peters
District 4



Peter A. Shapiro
District 2



Samuel H. Dean
District 6

Council ViceChair



Tony Knotts
District 8



Thomas R. Hendershot
District 3



David Harrington
District 5



Thomas E. Dernoga
District 1



Marilynn M. Bland
District 9



ELECTED OFFICIALS

JUNE 2002



COUNTY EXECUTIVE
Wayne K. Curry

COUNTY COUNCIL
Peter A. Shapiro
Chairman

Dorothy F. Bailey
Thomas E. Dernoga
M. H. "Jim" Estep
Thomas R. Hendershot

Tony Knotts
Ronald V. Russell
Audrey E. Scott
Marvin F. Wilson

CERTAIN OTHER EXECUTIVE BRANCH APPOINTED OFFICIALS

Kenneth E. Glover, Chief Administrative Officer

Douglas A. Brown, Deputy Chief Administrative Officer

Glenda M. Wilson, Chief of Staff

Donna F. Crocker, Deputy Chief Administrative Officer

Gail D. Francis, Acting Director of Finance

Barbara L. Holtz, Deputy Chief Administrative Officer

Stanley A. Earley, Director of the Office of
Management and Budget

Fred Thomas, Director of Public Safety

Leonard L. Lucchi, County Attorney

INDEPENDENT AUDITORS

KPMG LLP

Bert Smith & Co.



ELECTED OFFICIALS

DECEMBER 2002



COUNTY EXECUTIVE
Jack B. Johnson

COUNTY COUNCIL
Peter A. Shapiro
Chairman

Marilynn Bland
Samuel H. Dean
Thomas E. Dernoga
Camille Exum

David Harrington
Thomas R. Hendershotl
Tony Knotts
Douglas "J.J." Peters

CERTAIN OTHER EXECUTIVE BRANCH APPOINTED OFFICIALS

Dr. Jacqueline F. Brown, Acting Chief Administrative Officer	
Donna F. Crocker, Deputy Chief Administrative Officer	Gail D. Francis, Acting Director of Finance
Fred Thomas, Director of Public Safety	David Whitacre, Acting County Attorney
Michael Herman, Acting Chief of Staff	Stanley A. Earley, Director of the Office of Management and Budget

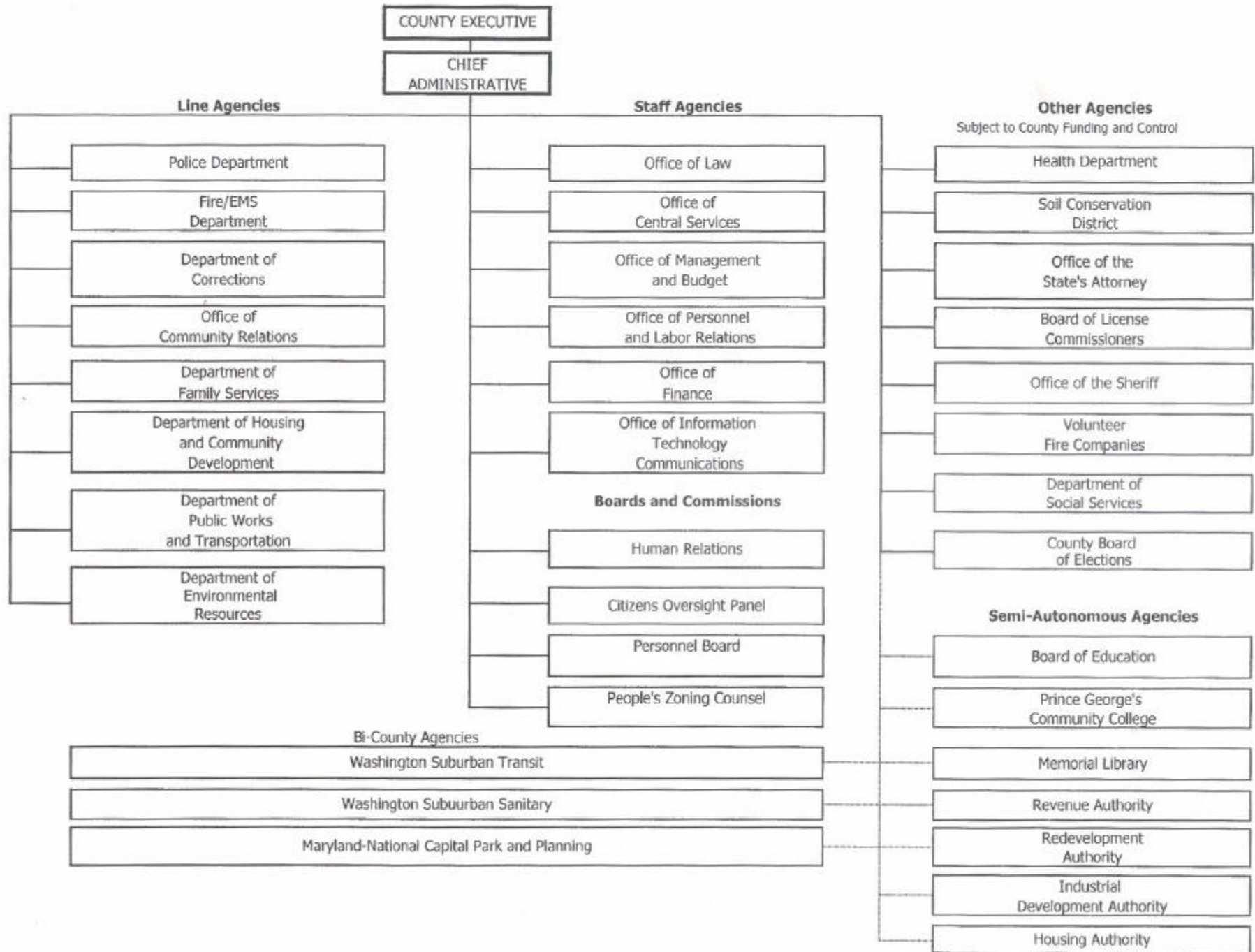
INDEPENDENT AUDITORS

KPMG LLP

Bert Smith & Co.

**PRINCE GEORGE'S COUNTY GOVERNMENT
ORGANIZATIONAL CHART**

Executive Branch



The Honorable County Council,
County Executive, and County Citizens

**Prince George's County,
Maryland**



**Office of Finance
Gail D. Francis
Acting Director of Finance**

December 20, 2002

The Honorable County Council,
the County Executive, and
Citizens of Prince George's
County, Maryland
Upper Marlboro, Maryland 20772

Ladies and Gentlemen:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of Prince George's County for the fiscal year ended June 30, 2002 required by both local ordinances - County Charter and State statutes. These ordinances and statutes stipulate that the County issue annually a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a way that presents fairly the financial position and results of operations of the governmental and business-type activities, various funds, and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

The CAFR consists of four sections: introductory, financial, statistical, and other. The introductory section which is unaudited, includes this letter of transmittal, a list of the County's principal elected and appointed officials, an organizational chart, and the Certificate of Achievement for Excellence in Financial Reporting. The financial section includes management's discussion and analysis, basic financial statements, and the combining and individual fund financial statements and supplementary schedules, and the independent auditors' report on these financial statements and schedules. The supplementary schedules are expansions of pertinent financial information previously summarized in the basic financial statements. These schedules are more fully presented in this part to aid the reader's understanding of the composition of these items. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multiyear basis.

The Honorable County Council,
County Executive, and County Citizens

The County is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act and the U.S. Office of Management and Budget's Circular A-133, **Audits of States, Local Governments and Non-Profit Organizations**. Information related to this single audit, including a schedule of expenditures of Federal awards (the schedule), the independent auditors' report on compliance with requirements applicable to each major program and internal controls over compliance with OMB Circular A-133, and a schedule of findings and questioned costs will be included in a separately issued single audit report. The fourth section ("Other") of the CAFR contains a related independent auditors' report on the County's internal controls over financial reporting and compliance with applicable laws and regulations at the basic financial statement level.

GAAP require the County to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors on pages II-1 through II-11.

THE REPORTING ENTITY AND ITS SERVICES

The financial reporting entity (the County) includes all the funds of the Primary Government (i.e., Prince George's County, Maryland as legally defined). It also includes Component Units for which the Primary Government is financially accountable. Discretely presented Component Units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the Primary Government and to differentiate their financial position and results of operations from those of the Primary Government. The County's eight Component Units are the following: Board of Education of Prince George's County, Housing Authority of Prince George's County, Industrial Development Authority of Prince George's County, Prince George's County Memorial Library System, Prince George's Community College, Prince George's Community Television Inc., Revenue Authority of Prince George's County and Redevelopment Authority of Prince George's County. The Parking Authority of Prince George's County, a separate component unit until December 31, 2001, merged into the Revenue Authority of Prince George's County on January 1, 2002.

The Washington Suburban Sanitary Commission, the Maryland-National Capital Park and Planning Commission, the Washington Suburban Transit Commission, and the Washington Metropolitan Area Transit Authority are also part of the Prince George's County, Maryland reporting entity and are reported as Joint Ventures in the accompanying notes to the financial statements. The Metropolitan Washington Council of Governments (COG) is reported as a jointly governed organization rather than a joint venture. Dimensions Health Corporation, Workforce Services Corporation, Economic Development Corporation, and the Local Government Insurance Trust are deemed to be neither Component Units, nor Joint Venture activities as such, and accordingly are excluded from this report.

The Honorable County Council,
County Executive, and County Citizens

The services provided by the Primary Government include police, fire and emergency services, family service programs, public works, and court and correctional services. The Primary Government also adopts and maintains building codes, regulates licenses and permits, collects taxes and revenue, maintains records, conducts elections, and collects and disposes of refuse. Services provided by the Component Units and partially financed by the Primary Government include: elementary, secondary, and community college education; public and private building construction; community building projects; projects devoted wholly or partially for public use that will stimulate employment or economic growth; library services; planning services; parking facilities; public and private residential housing; and public access to cable television programming. Public transit, parks and recreational facilities, and water and sewer services are provided by various joint venture entities.

GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION AND OUTLOOK

Prince George's County, Maryland - a body corporate and politic - is a political subdivision of the State of Maryland, which operates under a "home rule" Charter which was adopted in November 1970. The powers of the County are contained in the Charter of Prince George's County, Maryland (the "Charter") and in the Constitution and laws of the State of Maryland. By Charter, the County is composed of an executive and a legislative branch. The executive branch enforces the laws and manages the business affairs of the County. It consists of a County Executive (elected by the qualified voters of the entire County) and all other officers, agents, and employees under the County Executive's supervision and authority, including the Chief Administrative Officer who is responsible for the day-to-day administration of the County. The legislative branch of the County consists of a nine-member County Council (elected by Councilmanic District) and its staff. The County Executive and the members of the Council are limited by the Charter to two consecutive four-year terms in office.

Recognizing that the County government had not undertaken a comprehensive review of the Charter since 1974, the County Executive and County Council established a Charter Review Commission in 2001. The Commission, comprised of seven citizens and chaired by Judge Thomas P. Smith, formally presented its recommendations on March 26, 2002. The County Council considered the Commission's recommendations and passed legislation to send the Charter amendments to public referendum on the November 2002 ballot. The Charter amendments were approved by the County voters. The amendments, in general, deal with the structure and composition of the County Council, and include several changes that are intended to bring the Charter up to date and in line with contemporary methods of governance.

When Prince George's County was formed, it included all of that part of Maryland lying between the Potomac and Patuxent Rivers, extending from Mattawoman and Swansons Creeks on the south to the Pennsylvania line on the north, thus comprising the area which today constitutes the District of Columbia, Montgomery, Frederick, Washington, Allegany, and Garrett Counties, the northwest half of Carroll County, and that part of Charles County lying north of Mattawoman Creek. Named for Prince George of Denmark, husband of Princess Anne, heir to the throne of England, our County was founded in 1696. Between 1696 and 1800, Prince George's County was reduced to its present size by acts of Maryland's General Assembly.

The Honorable County Council,
County Executive, and County Citizens

Prince George's County encompasses 487 square miles that borders Washington, D.C., Montgomery, Howard and Anne Arundel Counties and is 37 miles from the city of Baltimore. The County's centralized location and its rich diversity has attracted some 816,800 residents and 14,000 businesses within its twenty-seven unique municipalities. Having a robust transportation system allows easy accessibility to the region's national and international airports and to the Port of Baltimore.

The Prince George's County Department of Parks and Recreation, under the guidelines of The Maryland-National Capital Park and Planning Commission, is committed to providing quality recreation programs, facilities, and services for residents and visitors. The Commission was created in 1927 and embodies the vision of leaders who saw the need to plan for orderly development and protection of the natural resources in Prince George's County. Since its inception, the diverse population has more than doubled and includes older communities, dense neighborhoods close to Washington, DC, upscale suburban developments, and rural areas. Funding for the Commission's programs comes from a combination of federal and state grants, corporate and community partnerships and a surcharge on property taxes paid by residents and business owners. These tax rates are levied by Prince George's County and are set each year with the approval of the County Council.

From 1990 to 2001, the County's population increased by 12.1%, compared to an 12.0% increase for the State of Maryland and a 14.1% increase for the United States. The population growth in the County has been gradual and is indicative of the increasing economic base. During the past year, the nation's economy experienced a downturn with the Gross Domestic Product (GDP) growth sliding to -1.3% in the third quarter of 2001. In an attempt to stimulate the economy, The Federal Reserve Board cut interest rates 11 times in 2001 to an historical low (1.75% for federal funds rate).

The nationwide economic downturn, together with the September 11th attacks has affected the regional and local economy. The unemployment rate in the County rose to 4.9% in June 2002, compared to 4.1% in June 2001. Annualized employment growth for County residents decreased by 0.8% in June 2002. Fortunately, the nation's economy began to recover, as indicated by positive GDP growth (1.4%) in the fourth quarter of 2001. The economic outlook for the County is also expected to improve, although it is still too early to be sure how fast the recovery process will be.

MAJOR INITIATIVES

During fiscal year 2002, the County's leadership was uniquely challenged with changing the way the County did business. As a result, there were structural reorganizations and realignments aimed at optimizing service delivery. Many of these changes were made in the economic development sphere. Other structural changes included reorganizing the Office of Personnel and Labor Relations, realigning the Office of Business and Regulatory Affairs with the Department of Environmental Resources, and creating an Office of Information Technology and Communications. Some agency budget functions were also centralized within the Office of Management and Budget. As indicated below, the County continues to move forward with major initiatives in areas such as economic development, education and school construction, public safety, capital improvement, technology and the delivery of government services.

The Honorable County Council,
County Executive, and County Citizens

Economic Development

During fiscal year 2002, there were several changes to the various organizations responsible for carrying out the economic development initiatives of the County. All of these adjustments were made in an effort to combine operational functions where a potential for improvement existed. In addition to 17 county and bi-county agencies the following six organizations, continue to play a major, yet distinct, role in the innovative and comprehensive economic development programming of Prince George's County:

- Economic Development Corporation – continued and increased its focus on the retention and expansion of existing county businesses
- Financial Services Corporation – expanded its efforts to provide small business development loans
- Conference and Visitors Bureau – expanded its marketing and promotion role
- Workforce Services Corporation – expanded its responsibility of securing employment opportunities
- Revenue Authority - increased its financing and programming activities to be a more active catalyst for economic activity in the County
- Redevelopment Authority - continued to expand its activities in some of the County's mature communities

Education and New School Construction

The County's dedication to improving the quality of education continues to be a priority. County leadership understands that the government's role in quality education is limited to providing funding for the Board of Education; we devote close to 63% of the County's total current expense budget for the Board of Education. Further, we have actively pursued an aggressive school construction strategy to open 26 new or newly reopened schools – 13 of which are required under the terms of a Memorandum of Understanding between the County Government, the Board of Education, and the NAACP. The County is largely utilizing bond proceeds to construct these schools. In recent years, the debt service to pay off these bonds has increased steadily. The County budgeted \$23.4 million in fiscal year 2002 for this purpose.

In addition, the County designated \$10 million in fund balance and provided those funds to the Board of Education to pay for one-time expenditures associated with computer purchases and the startup costs for new schools. This was the second consecutive year the County took this action.

Our public school system is the largest in the state of Maryland and nineteenth largest in the country. It consists of: 137 elementary schools, 29 middle schools, 22 high schools, nine special education centers, two vocational centers, one science center, one outdoor education center and one early childhood center for a student population estimated at 134,150 in fiscal year 2003. There are magnet and compensatory school programs in 116 schools. The County's higher education and vocational education programs bring enrichment to senior citizens, integration to a growing population of immigrant and international students, and strengthens partnerships with community agencies, businesses, industries, and organizations.

The Honorable County Council,
County Executive, and County Citizens

Public Safety

Fiscal year 2002 was a challenging period for Prince George's County residents and the nation. The terrorist attacks of September 11, 2001 and the nation's anthrax incidents had a profound impact on our safety resources. Our public safety personnel were involved in supporting emergency service operations at the Pentagon and responded to anthrax incidents at several locations within the County and at Federal facilities throughout the region. With the increased emphasis on homeland security, the County will purchase additional equipment and continue to prepare the public safety workforce for any future emergencies.

The fiscal year 2002 Police Department budget, \$142.2 million, increased by 2.9% over fiscal year 2001. Sworn staffing in the Department climbed to 1,420 in fiscal year 2002 and remains at that level in fiscal year 2003. Civilian staffing declined by three individuals reflecting the transfer of three positions to another agency. In a mid-year transfer, 118 public safety communications civilian positions were shifted to the newly created Office of Information Technology and Communications.

The Fire and Emergency Medical Service hired 20 additional civilian positions. These civilians assumed administrative and technical duties carried out previously by sworn personnel, thus allowing the sworn personnel to return to emergency operations. In March 2002, the department hired a class of 33 Emergency Response Technicians. These recruits completed their academy training and began fieldwork in July 2002. It is anticipated that these new recruits will have a favorable impact on overtime cost. Overtime exceeded budgeted levels in fiscal year 2002 due to significant levels of sworn vacancies coupled with heightened work levels in the aftermath of the terrorist attacks on September 11th and the tornado that occurred two weeks later in LaPlata, Maryland.

Capital Improvement

The Capital Budget is the framework within which all County development activities occur, whether it be for constructing new facilities or extending the usable life of existing facilities. Since capital facilities provide benefits over a long period of time, the County normally spreads out their costs, paying for them through general obligation bonds and other forms of long-term indebtedness. This ensures that capital costs are not borne solely by today's taxpayers, but that the future beneficiaries of capital projects also help to pay for them.

The fiscal year 2002 Capital Budget consists of 312 projects at a total cost of \$493.5 million. After subtracting the \$115.3 million associated with Maryland-National Capital Park and Planning Commission projects, the \$9.7 million associated with the Redevelopment Authority and \$5 million associated with the Revenue Authority, the County's portion of the capital budget amounts to \$363.5 million. The amount of County general obligation bonds programmed for sale in fiscal year 2002 to support capital budget expenditures is \$113.4 million. On December 19, 2001, the County, however, issued \$83.8 million general obligation bonds to support capital projects approved in fiscal year 2002 capital budget.

The Honorable County Council,
County Executive, and County Citizens

The fiscal year 2002 capital budget includes new project initiations for the school system and the County. Funds are included to replace one high school, and to construct two new middle schools. At the elementary level, the budget contains construction funds for ten new elementary schools and design funds for three new schools. Also included are four school renovations, and classroom additions. Other major County projects, which were financed with December 2001 general obligation bond sale, included the South County (Accokeek) Branch Library, the Detention Center Expansion, the Cheverly Health Center Renovation, the Duvall Wing Courthouse renovation, over 30 road and bridge improvement projects, six stormwater related projects and two solid waste facilities.

Technology and the Delivery of Government Services

Fiscal year 2002 was the first year that the newly created Office of Information Technology and Communications operated as an independent County agency. This office is responsible for the administration and management of the County's data processing systems, voice and data telecommunications networks and geographic information system. This restructuring has proven successful and the end users have benefited from this achievement. Beginning in fiscal year 2002 and continuing in fiscal year 2003, the County has taken the desktop modernization effort one step further as all PC's migrate to a Windows 2000 environment. This desktop technology's availability and usage has increased by over 800%.

Several public safety agencies will participate in and benefit from new records management systems. These new systems will integrate several existing records systems to provide for a more timely and efficient exchange of information. The Corrections Department will be a major recipient, creating an inmate tracking system. The County received a Federal grant that will support the cost of the new records management systems and will be fully integrated with the Computer Aided Dispatch, mobile data terminals, and other technological facilities. This will enable mobile units to do field reporting with minimum keystrokes and serve as a management tool for department supervisors. Additionally, this system will also allow information sharing with other public safety agencies to further enhance our officer's ability to abate crime.

Prince George's County has a quality of life driven by economic development and fiscal integrity. We are a proud community rich in its diversity of people, landscapes, lifestyles and business resources not to be found elsewhere in the Washington Metropolitan area. The County is committed to ensuring a high quality of life and long-term economic viability for its residents. Providing opportunities for good jobs, quality housing, fine shopping, good restaurants, and the other amenities that citizens desire and deserve. These services require a healthy business climate that promotes quality economic development.

Expanding firms are making the choice to reside in Prince George's County. Some of the factors that help with this decision are competitively priced land and buildings, an integrated transportation system, proximity to Washington, DC, the Revitalization Tax Credit, a new High Technology Incentive Package, and Enterprise Zone benefits. The County also has a foreign trade zone and two state enterprise zones within its boundaries. The County continues to dedicate significant resources to the renewal and revitalization of the community for its citizens.

The Honorable County Council,
County Executive, and County Citizens

REPORT CARD ON THE COUNTY'S PERFORMANCE

In February 2002, Governing magazine published the results of the Government Performance Project's (GPP) "Management Report Card" comparing the nation's forty largest counties including Prince George's County, Maryland. Research was conducted by the Alan K. Campbell Public Affairs Institute of the Maxwell School of Citizenship and Public Affairs at Syracuse University in conjunction with The Pew Charitable Trusts. The GPP conducted an exhaustive review of management in county government similar to their "Report Cards" featured by Governing in the past, which rated the nation's largest cities and all fifty States.

The researchers examined five major areas: Financial Management, Capital Management, Information Technology, Human Resources and Managing for Results. Prince George's County's overall grade was a B minus, placing the County in the middle of the second quartile among those counties surveyed. Of particular interest were the grades for the Financial Management and Information Technology categories in which the County received a B plus in each, placing the County among the top twenty percent in both categories.

The survey researchers praised the County's financial management practices for: keeping costs in line through formal spending affordability rules; using financial advisors on all debt issues; replenishing a well-stocked rainy day fund; setting aside an additional administrative reserve; and expanding the long-term investment portfolio. Likewise, the survey cited considerable achievements in managing information technology resources, including: adding a new cabinet-level director; returning outsource contract responsibility to the County for critical IT projects; completing projects on time and on budget; maintaining good compliance with procurement standards; requiring mandatory staff training; and initiating a new cost-benefit analysis project.

FINANCIAL INFORMATION

Management of the County is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state, and local financial assistance, the County is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and the Office of Audits and Investigations.

The Honorable County Council,
County Executive, and County Citizens

As part of the County's Single Audit, described earlier, tests were made of the County's internal control over compliance and of its compliance with laws and regulations applicable to each of the County's major federal award programs. The Single Audit for the fiscal year ended June 30, 2002, will be released shortly, and no material internal control weaknesses or material instances of noncompliance with laws and regulations is expected to be reported.

The Primary Government maintains an Office of Audits and Investigations as required by Charter. The duties and responsibilities of this office include: annual financial audits of all agencies receiving or disbursing County funds; special audits of the accounts of any such agency upon request by the Council or County Executive; special audits of the accounts maintained by various County officers upon their death, resignation, removal, or expiration of term of office; and performance audits of any agency which is a recipient of funds appropriated or approved by the Council.

In addition to periodic audit activities, the County maintains an extensive budgetary control system. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the County Council. Budgetary control in the General Fund is maintained at the department/agency level and at the fund level for all other funds. No County liability shall be incurred or contracted by any department, agency, or employee, and no bill or invoice shall be approved or paid, unless authorized by the Council budget adoption or specific appropriation to cover payment out of public funds. Any person willfully violating this provision shall be deemed responsible for the contract, debt, or expenditure. Any Department Head allowing such actions is subject to disciplinary action by the Council.

The County Executive is authorized to transfer the budget amount of a department within any fund; however, any revisions that alter the total budgeted expenditures of any department or fund must be approved by the County Council. No agency of the Primary Government shall during any fiscal year expend, or contract to expend, more than the amounts appropriated in the budget for each fiscal year. The Component Units may transfer budget appropriations within certain limits, but generally may not alter total appropriations without a budget amendment by County Council.

The County has implemented plans to expand and upgrade its system of performance measurements and many agencies have begun to develop and track improved performance measures. Other agencies will track financial and program performance on a routine basis with a special emphasis on efficiency and outcome measures. The data will be used not only for reporting purposes but to guide daily management decisions and to focus operational policies. The County is also exploring the possibility of "benchmarking" its services - setting specific performance targets to the end of the decade and beyond that the public can use to judge the County's achievement of certain broad strategic goals, goals that collectively constitute its citizens' vision of the County's future.

As demonstrated by the statements and schedules included in the financial section of this report, the County continues to meet its responsibility for sound financial management.

The Honorable County Council,
County Executive, and County Citizens

PENSION TRUST FUNDS

The Primary Government's Pension Trust Funds include four Comprehensive Pension Plans and seven Supplemental Pension Plans. The four comprehensive plans cover the police officers, firefighters, and paramedics, deputy sheriffs, and correctional officers. The Supplemental Pension Plans cover the following employee groups: Deputy Sheriffs; Correctional Officers Association; AFSCME Local 241 (crossing guards); AFSCME Locals 1691, 2462 and 2735 (A Schedule); General Schedule employees; Local 1619 (Fire Civilian), and Police Civilian.

Poor market performance in fiscal year 2002 led to investment losses of \$32,003,652 and \$3,317,049 in the Comprehensive and Supplemental Plans, respectively. Employer and employee contributions to all the plans totaled \$25,694,951 and \$10,877,675, respectively. The Comprehensive and Supplemental Pension Plans experienced increases in expenses of 5.22% and 14.48%, respectively.

CASH MANAGEMENT

The Primary Government's accounting system operates under a pooled treasurer's fund concept. This method reduces the efforts needed to manage cash and investments as bank accounts and investments are consolidated in the treasurer's fund instead of separate bank accounts and investments for each fund.

The Primary Government uses a computer system to maximize interest income from investment decisions. This system not only accounts for and reports on the investment portfolio, but also identifies the optimal maturity and cash balances to invest. The Primary Government's approved investment policy is documented in the **Financial Policies and Procedures Manual**. The key investment objectives are to preserve the capital in the overall portfolio, to remain sufficiently liquid to meet disbursement requirements which might be reasonably anticipated and to maximize the return on investments consistent with risk limitations and prudent investment policies.

State statutes authorize the component unit entities to manage their cash similar to the Primary Government. Therefore, the Primary Government and component units may invest temporarily idle cash in obligations to which the United States has pledged its full faith and credit for the payment of principal and interest, obligations issued by a federal agency according to an act of Congress, and in Maryland based bank and thrift certificates of deposit and other accounts, municipal bonds, bankers' acceptances, repurchase agreements, money market mutual funds, commercial paper, and the Maryland Local Government Investment Pool.

For fiscal year 2002, the Primary Government earned \$13,566,830 of interest income on an average daily investment portfolio balance of \$423,236,204 as compared to \$26,645,283 in fiscal year 2001 on an average daily investment balance of \$444,429,759.

The Honorable County Council,
County Executive, and County Citizens

RISK MANAGEMENT

The Primary Government, together with the Board of Education, the Board of Trustees for Prince George's Community College, and the Board of Trustees of Prince George's County Memorial Library, have pooled their risk management activities into four self-insurance funds.

The self-insurance funds are managed by a committee composed of representatives of each entity with the Director of Finance of the Primary Government serving as a permanent chairperson. This committee meets periodically and is responsible for formulating all risk management policies and the review of claims and program evaluation. In addition, the fund uses: a professional claims management firm to adjust claims; an independent insurance consulting firm to review the treatment of risks and other technical matters; an actuarial firm to evaluate the adequacy of funding levels; and contractual and in-house attorneys to administer legal requirements of the funds.

Estimated liabilities for pending claims are recorded in the self-insurance funds based on recommendations by the claims management firm for non-litigation claims, while recommendations of legal counsel provide the basis for claims involving litigation which may have possible adverse outcomes to the County. Litigated claims with a possible adverse outcome to the County are disclosed in the notes to the financial statements. The major types of claims covered by the self-insurance funds are indicated below:

	Primary <u>Government</u>	Board of <u>Education</u>	Community <u>College</u>	Memorial <u>Library</u>
Professional liability	X	X	X	X
Automobile liability	X	-	-	X
Property replacement	X	X	X	X
Worker's compensation	X	X	X	X

The Primary Government is also self-insured for unemployment compensation and health coverage.

The Primary Government, together with the other Component Units as mentioned above, participate in the Local Government Insurance Trust (LGIT) for excess coverage for property related risks. LGIT, created in 1988 by permissive legislation found in Section 482B of Article 48A of the Annotated Code of Maryland, permits pooling by governmental entities for affordable insurance protection.

The Honorable County Council,
County Executive, and County Citizens

INDEPENDENT AUDIT

County ordinances and state statutes require an annual audit by independent certified public accountants. The public accounting firm of KPMG LLP, in association with Bert Smith & Co., were engaged to perform this task in fiscal year 2002. Besides meeting requirements set forth in these ordinances and statutes, the audit was also designed to meet the requirements of the federal Single Audit Act and the related U.S. Office of Management and Budget's Circular A-133, **Audit of States, Local Governments, and Non-Profit Organizations**. Auditing standards generally accepted in the United States of America and the standards set forth in the General Accounting Office's **Government Auditing Standards** were used by the auditors in conducting the engagement. The auditors' report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The auditors' report on compliance and internal control over financial reporting at the basic financial statement level can be found in section four of this report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Prince George's County, Maryland for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. This was the 22nd consecutive year (fiscal years ended 1980 – 2001) that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the County also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year beginning July 1, 2001. Congratulations to my associate - Mr. Stanley A. Earley, Director, Office of Management and Budget - on this achievement. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories including policy documentation, financial planning, and organization.

The Honorable County Council,
County Executive, and County Citizens

ACKNOWLEDGMENTS

Immeasurable appreciation is owed to Kenneth E. Glover, Chief Administrative Officer for his exceptional expertise and guidance through the challenges of fiscal year 2002. Credit must also be given to the County Executive Wayne K. Curry for his resolute vision and the County Council for their continued interest and support in conducting the operations of the government in a responsible and progressive manner. We look forward to working with our new County Executive Jack B. Johnson and County Council who were installed on December 2, 2002.

The Office of Finance is also indebted to several agencies that helped with the successful implementation of GASB-34: Department of Public Works and Transportation, Department of Environmental Resources, Office of Central Services, Office of Management and Budget and the Office of Audits and Investigations. Our sincere gratitude is extended to those men and women who contributed their knowledge and expertise to this important project.

Preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Office of Finance's Accounting Division; and in particular Charles M. Curtis, Jr., Assistant Director of Accounting. We would like to express our appreciation to the Accounting Division and to all others that assisted and contributed to the preparation of this report. A list of individuals who helped ensure the success of this endeavor and deserve special recognition is provided below:

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Respectfully submitted,

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Acting Director of Finance

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